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ABSTRACT

This paper estimates the costs of several approaches to increasing federal assistance to disadvantaged children and evaluates major funding strategies that could overcome the restrictions posed by the federal budget deficit. Approaches favored by conservatives, such as strengthening behavioral standards for children, sponsoring demonstration projects at state and local levels, and giving families with children more choice over the government services they receive, would probably cost between $1 and $4 billion annually. The more comprehensive approaches favored by liberals, which emphasize developing skills and safeguarding health while meeting basic needs for food, shelter and clothing, would probably cost between $10 and $20 billion annually. Different combinations of funding strategies could finance even the most expensive programs, but each has its own set of advantages and disadvantages. The following strategies are evaluated: (1) federal financing through conventional budget procedures; (2) special federal financing mechanisms; (3) state, local, and private financing; and (4) reallocation of federal funds already spent on children. Statistical data are included on six tables. A list of 100 references is appended. (FMW)

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CHANGING DOMESTIC PRIORITIES

ED307374

DISCUSSION PAPER

POLICIES TO HELP DISADVANTAGED CHILDREN: FINANCING OPTIONS FOR THE 1990S

Roberta O. Barnes
Jason N. Juffras
Joseph J. Minarik

December 1988

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This paper was prepared as background reading for a seminar at The Urban Institute on September 30, 1988 and was subsequently revised.

This paper is a product of the Changing Domestic Priorities project which has examined the shifts taking place in the nation's economic and social policies under the Reagan administration and is now focusing on the major economic and social problems facing the nation over the coming decade. Funding was provided by the Carnegie Corporation of New York.

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EXECUTIVE SUMMARY

In many respects, the well-being of children has declined during the past two decades. More children are poor, while the education and health care many receive is inadequate. Yet despite considerable public attention in recent years to the disadvantages many children face, national policy remains largely unchanged. If this pattern persists, today's children will be significantly less healthy and productive as adults than they otherwise might be, and less able to compete in an economy that depends increasingly on an educated work force.

One of the most formidable obstacles to greater assistance to disadvantaged children is the federal budget deficit, projected at $152 billion in fiscal year 1989. To help break the stalemate on national policy concerning disadvantaged children, this paper estimates the costs of several approaches to helping them and evaluates four major funding strategies.

Policies to strengthen behavioral standards for children, sponsor demonstration projects at the state and local levels, and grant families with children more choice over the government services they receive--ideas often favored by conservatives--would probably cost between $1 and $4 billion annually. In contrast, the more extensive efforts liberals typically support to build the skills and safeguard the health of at-risk children, while meeting their basic needs for food, clothing, and shelter could cost between $10 and $20 billion per year. A compromise emphasizing investments in the skills and health care of children, with other aspects of the conservative and liberal approaches, might carry a yearly price tag between $5 and $9 billion.

Different combinations of the four funding strategies considered in this paper could finance even the most expensive programs described above, but each has its own set of advantages and disadvantages. Federal financing through conventional budget procedures risks inflating the deficit if offsetting spending cuts or tax increases are not instituted--a process that has thus far proven to be politically difficult. Furthermore, any spending cuts

or tax increases might be used in full to reduce the deficit instead of to help disadvantaged children. Seeking special federal financing mechanisms like earmarked taxes would connect higher taxes with the popular cause of helping children but would also insulate programs from tough budgetary choices and could encourage other groups to seek special treatment. Relying more on state, local, and private financing would foster innovation and enable policy makers to adapt programs to local circumstances but might produce wide disparities in services in different regions. Finally, reallocating federal money already spent on children could free up over $2 billion but requires judgments about program effectiveness and targeting that are difficult and controversial.

INTRODUCTION:
TIGHT BUDGETS IMPEDE ASSISTANCE TO DISADVANTAGED CHILDREN

Many social and economic changes have left American children vulnerable during the last two decades. Divorce rates climbed sharply and the percentage of births to unmarried women tripled, leaving many children in female-headed families, half of which were poor in 1986.[1] Between 1973 and 1985, the real income of all families with children dropped by nearly 7 percent, while the poverty rate for children rose by 50 percent.[2] Meanwhile, people became increasingly worried about the quality of public schools as well as the supply and affordability of the day care necessary for children as women joined the labor force in growing numbers. Trends like these led sociologist Samuel Preston to speak of an "earthquake" shuddering through American families, injuring children.

If American children have been shaken by an earthquake, the policy aftershock is taking time to register. While many observers advocate investments in children and measures to break a cycle of disadvantage and dependency, policy makers disagree about how to help children hurt by the changes of the last two decades. Partly as a result, federal spending on programs for children has declined by 4 percent in the last decade, according to estimates prepared by House Budget Committee staff.[3] More importantly, the federal budget deficit, projected at $155 billion in fiscal year 1988 and $148 billion in fiscal year 1989,[4] is hampering the government's ability to set new priorities on policies affecting disadvantaged children. This has been the case even when liberals and conservatives agree on the outlines of policy, as in the welfare reform legislation signed by President Reagan in October 1988. Due to the tight budget, the new law provides only $600 million in federal

money for fiscal year 1989 and requires states to enroll only 11 percent of welfare recipients without young children in education and training by fiscal year 1992.[5]

This paper presents a foundation for efforts to break the stalemate on national policy concerning disadvantaged, or "at-risk" children--defined here as those children at risk of dependency or destitution due to poverty, learning, or health disabilities--by evaluating different funding options. Because it is hard to assess financing options for disadvantaged children without understanding--and attempting to quantify--their needs, Part I of this paper will review the rationale, methods, and potential costs for assisting this group. After a brief analysis of the federal budgetary setting in Part II, the discussion will then turn to the central issue of financing in Part III. The term "financing" is defined broadly here: in addition to considering direct federal outlays or tax subsidies, this paper will examine how the nation can finance assistance to disadvantaged children by reallocating federal money already spent on children, or by encouraging the states, localities, or the private sector to assume more responsibility for young people's fate.

PART I: ASSISTING DISADVANTAGED CHILDREN: RATIONALE, PRIORITIES, AND REVENUE NEEDS

A. The Problems of Disadvantaged Children: Why Should We Act?

The case for increasing assistance to disadvantaged children has been forcefully stated in a number of recent reports.[6] This section will briefly summarize these arguments.

A primary reason to make disadvantaged children an important priority of public policy is that they are far less likely than other children to become healthy, productive adults. Poor children have relatively low educational attainment, dimming their prospects for employment and adequate income.[7] Children growing up in single-parent families, many of whom are poor, are more likely to drop out of school, to have children without being married, to divorce or separate, and to depend on public assistance as adults.[8]

Furthermore, the number of children at risk of educational failure and economic dependency has increased in the last two decades, whether one looks at the proportion of children living in poor families, in single-parent families, or in troubled neighborhoods. Whereas 1 child in every 7 was poor in 1970, the rate is now 1 in 5, representing an increase of 2 million poor children.[9] In 1970, 7.5 million children lived in mother-only families, compared to 13.2 million in 1986.[10] Finally, whether one examines "underclass" areas where many residents violate accepted social norms, or neighborhoods where more than 40 percent of the residents are poor, one finds that the number of children living in these adverse environments increased by about 450,000 to 500,000 between 1970 and 1980.[11]

If unalleviated, these stresses upon American children could well cause deeper fissures in our economy and social structure. With many children today growing up poor and unable to perform simple calculations or tasks,[12] the nation may well lack the skilled workers the economy will need as more jobs require problem-solving and an understanding

of technology. Minority youth, who will make up a rising percentage of the labor force, will be the least prepared to participate in this economy, as the income, health, and education of these children is poorer than that of white children.[13] Unless disadvantaged children receive attention from society, minorities may remain alienated and isolated from the mainstream, and racial tensions may worsen.

Now may be an opportune time for policy makers to act on the problems facing disadvantaged children. Polls suggest that voters support new efforts to help children.[14] Likewise, President-elect Bush has proposed policies to benefit children, most notably through a children's tax credit, expanded Medicaid coverage, and stricter child support enforcement.[15] Complementing the political will to help disadvantaged children is some of the requisite policy expertise gleaned from the successes and failures of social programs since the War on Poverty. Specifically, expansions of programs found to be cost-effective--such as those cited in a report by the House Select Committee on Children, Youth, and Families--might reap large benefits.[16]

B. Setting Policy Priorities for Disadvantaged Children: What Are The Tough Choices?

If there is a strong rationale for action to help disadvantaged children, the logical next question is "How?" This section briefly summarizes some of the most important choices policymakers face in deciding how best to aid at-risk children. This part of the discussion, however, is not an end in itself; rather, it should set some parameters for the analysis of financing strategies that is the primary focus of this paper. Therefore, this section will attempt briefly to decompose the questions policy makers must answer in order to set new priorities for disadvantaged children: Who should be helped? What kind of help should they receive? How much help should public and private actors provide? In the subsequent sections of this paper, these choices will be linked with funding needs and strategies.

Who Should Be Helped? Some politicians and researchers strongly emphasize preventive policies targeted at young children.[17] Advocates of this strategy, which often includes child health care and preschool education, cite evidence that this approach fosters the healthy development of disadvantaged children as well as the ability of parents to care for them. As a result, society averts large costs in the form of public assistance, crime, and illness.

The Special Supplemental Food Program for Women, Infants, and Children (WIC), for example, is estimated to save $3 for every dollar spent, partly by saving large hospital bills.[18] Even stronger support for early assistance to at-risk children comes from the Perry Preschool Project, a controlled experiment showing returns of almost $6 for every dollar spent on preschool education. The benefits, which included higher employment rates, less dependence on welfare, and lower crime, were still significant when the children in the

study reached 19 years of age, showing that policies to prevent damage to young children can bring about lasting change.[19]

Others call for targeting policies at disadvantaged children of all ages. First, there are special challenges children and their families face at each stage of a young person's growth: early adolescence, for example, is considered by some to be as crucial to later success in life as infancy and early childhood.[20] Accordingly, policies might be necessary to help at-risk children learn and mature throughout their youth. Second, some efforts to help very young children may need reinforcement later. For example, the Congressional Budget Office (CBO) and several research organizations have found that gains from the Compensatory Education program erode after the services end.[21] A final reason to implement policies helping disadvantaged children of all ages is that the problems of teen parents harm their children. One study showed that nearly 60 percent of families on welfare in 1975 were headed by a woman who had been a teenage mother.[22] Once again, some programs helping older children have worked; for example, a careful evaluation of the Job Corps program for disadvantaged teenagers found that it produced a 46 percent return on society's investment.[23]

What Kind of Help Should Disadvantaged Children Receive? After deciding which children should be the focus of assistance, policy makers must determine what help that group should receive. Many politicians and researchers stress investments in the health, education, and training of disadvantaged children to help them become productive, self-supporting adults, emphasizing that such efforts to build "human capital" will save money in the long run. As noted earlier, some investments in the skills of children like preschool education and the Job Corps yield benefits greater than their costs. Yet these and other programs are not serving all those in need. The WIC program, for example, reaches 44 percent of those eligible for its nutrition supplements; the Head Start preschool education

program enrolls about 1 in 5 eligible children.[24] Therefore, it might be wise to increase spending on these programs for disadvantaged children. This focus on investments that will help at-risk children to support themselves when they are adults resonates with popular sentiment that public assistance should be transitional.

The current interest in building the human capital of disadvantaged children, however, may distract public attention from their pressing subsistence needs. As the number of poor children has grown, many of the so-called "safety net" programs that meet their basic consumption needs have failed to keep pace. For example, the percentage of poor children receiving Aid to Families with Dependent Children (AFDC) benefits declined from 79.4 in 1976 to 59.8 in 1986.[25] The amount of support provided by AFDC has also declined: the average maximum benefit for a family of three declined by 35 percent in real terms between 1970 and 1988.[26] In addition to more generous transfer payments, government policies to increase the supply and affordability of child care for low-income families might indirectly help to meet children's basic needs if this assistance enabled parents to enter the work force.

Nevertheless, many politicians and researchers worry that increased cash and in-kind assistance to disadvantaged children may accustom them to dependency at an early age and erode parental responsibility. They thus insist that government assistance should increase the well-being and autonomy of families through policies that grant them choices. President-elect Bush's proposed $1000 refundable "children's tax credit" is a good example of such a policy: although the policy could help low-income families pay for child care, the money can be used for any purpose. The open enrollment policies in schools in 15 states share the same emphasis on giving the disadvantaged more control over their lives by letting them choose the best available services.

Finally, some people concerned about policies toward children often argue that society can best help disadvantaged children by upholding behavioral standards--like regular

employment, sexual responsibility, and diligent study--that will enable them to escape a cycle of poverty.[27] If the government can help communicate and bolster these expectations by toughening high school graduation standards, insisting that teen fathers help support their children, or fighting crime and the spread of drugs, disadvantaged children might benefit.

How Much Help Should We Provide? Not only do policymakers differ over the policies most needed to help at-risk children, but they also disagree over how extensive those efforts should be. Two unknowns are critical in this regard: the ability of public policies to improve disadvantaged children's lives; and the effect of assistance on parental responsibility for children. Not surprisingly, those who are sanguine about the effectiveness of public and private programs, and believe that these efforts reinforce rather than supplant familial responsibility, support strong commitments to help disadvantaged children. Those who are skeptical about such policies and programs often emphasize state and local demonstration projects and other community-based initiatives to find better ways of aiding at-risk children.[28]

In summary, the process of setting policies toward disadvantaged children is like plotting points in space: one tries to find desired points along each of several planes. Using some of the categories described above--which children should be helped; what kind of help they should receive; and how much--as planes, the next section will attempt to quantify the financing implications of different choices along these dimensions.

C. Implementing Policies to Help Disadvantaged Children: What Are the Revenue Needs?

To facilitate the discussion of financing strategies, this section estimates the annual costs in 1988 dollars of different policies to help disadvantaged children. These figures, summarized in Table 1, represent the "out-year" costs that would accumulate once all changes in the relevant programs had been made.

TABLE 1

Costs of Policies to Help Disadvantaged Children

Policy	Estimated Annual Cost (1988 dollars)
Conservative: emphasizing demonstration projects, behavioral standards, and assistance programs promoting choices	$1-$4 billion
Moderate: emphasizing human capital programs and some cash and in-kind assistance, behavioral standards, and demonstration projects	$5-$9 billion
Liberal: emphasizing human capital programs as well as cash and in-kind assistance	$10-$20 billion

The first step in preparing the cost figures in Table 1 was to estimate an upper bound of almost $20 billion for the cost of a national effort to help disadvantaged children. The calculation of this limit was based on the assumption that the most expensive approach to help at-risk children would combine programs that meet the daily needs of children, mostly through income maintenance or in-kind assistance, with those designed to increase their capacity for self-sufficiency as adults. To approximate the cost of such an extensive effort, the price of expanding five important "human capital" programs for children was estimated

and added to the expected costs of broadening five direct assistance or "safety net" programs that are critical to children. This calculation is summarized in Table 2 and detailed in the Appendix.

TABLE 2

An Upper-Bound Cost Estimate of National Efforts
To Help Disadvantaged Children

Human Capital Programs	
1. The Special Supplemental Food Program for Women, Infants, and Children	$1.5 billion
2. Medicaid	$2.0 billion
3. Head Start	$2.0 billion
4. Compensatory Education	$2.5 billion
5. Job Corps	$ .5 billion
Safety Net Programs	
1. Aid to Families with Dependent Children	$3.0 billion
2. Food Stamps	$ .9 billion
3. The Earned Income Tax Credit	$2.0 billion
4. Housing Assistance	$3.9 billion
5. School Lunch and School Breakfast	$ .6 billion
Total:	$18.9 billion

It is important to stress that the estimate outlined on the previous page does not represent a recommendation that these 10 programs be expanded. Rather, these programs were used only as proxies to predict the upper range for costs of public policies to help disadvantaged children.

This upper bound of almost $20 billion as the price for a national effort to improve the lives of at-risk children was then used to set rough cost estimates for prototypical "liberal," "moderate," and "conservative" approaches to children's problems. Because liberals tend to favor programs building people's skills or redistributing resources, it was assumed that they might want to incur some or all of the costs of helping disadvantaged children calculated above, at a cost of $10 to $20 billion. A moderate approach to aiding at-risk children would involve less direct public intervention and probably build on proven programs that improve the health, education, and later employment prospects of children. Such policies might cost between $5 and $9 billion, judging from the calls of Vice-President Bush and Governor Dukakis for sound investments in children during the 1988 presidential campaign.[29] Finally, a more conservative approach to assisting disadvantaged children favoring less public intervention and emphasizing behavioral standards, community-based initiatives, and tax credits and vouchers to promote family choices, would require smaller governmental outlays, possibly between $1 and $4 billion.

PART II. FINANCING PROGRAMS FOR DISADVANTAGED CHILDREN: THE BUDGETARY SETTING

However compelling the case for assisting disadvantaged children, federal dollars for children's programs--or for any other purpose--of the magnitude described in the previous section will be difficult to raise over the foreseeable future. As Table 3 below documents, the budgetary outlook over the next 5 years is for deficits to continue at a virtually constant, and most would agree, excessive level.[30] The CBO projects that the annual deficit will decline by less than $30 billion, to $121 billion annually, by 1994. Government borrowing to bridge this gap will absorb funds needed for the investment that will drive economic growth in the future. Without this growth, today's children will be poorer as adults.

TABLE 3

CBO Baseline Deficit Projections

Fiscal Year	Projected Deficit
1989	$148 billion
1990	$136 billion
1991	$131 billion
1992	$126 billion
1993	$121 billion
1994	$121 billion

SOURCE: Congressional Budget Office, The Economic and Budget Outlook: An Update (Washington, D.C.: U.S. Government Printing Office, August 1988), p. xi.

Moreover, the CBO budget scenario described in Table 3, based on an assumption of moderate, steady growth, may be overly optimistic for several reasons. First, the budget is highly sensitive to economic conditions: thus, an unexpected slowdown in the economy

would inflate the deficit both by reducing tax revenues and increasing transfer payments. If economic growth continues through 1994, such a performance would virtually double the duration of what is already the nation's longest recorded peacetime expansion. The longer economic expansion continues and the closer the economy is to full employment, the more vulnerable it becomes to potential imbalances, such as the ripple effect of overproduction and retrenchment in a particular sector, or an outbreak of inflation. Thus, continuing our current fiscal policies that leave the budget deficit relatively constant, while running the risk that a recession will cause the deficit to swell, is like extending a game of Russian roulette.

The budget deficit is also highly sensitive to interest rates because the federal government has almost tripled its accumulated debt since the beginning of this decade,[31] bringing repayments up to 14 percent of the federal budget in fiscal year 1988.[32] CBO deficit projections assume a small, gradual decline in interest rates, but if that drop does not occur, the budgetary gap will be higher than projected. The Federal Reserve Board raised discount rates during the summer of 1988 and may need to increase interest rates further to bolster a sagging dollar.[33]

In addition to economic variables, political decisions about spending priorities also threaten to increase the deficit. The slow reduction in the deficit over the past four years has come only through tremendous restraint in numerous federal programs. The defense buildup abruptly halted and real defense spending has declined, even while deliveries of previously ordered military hardware increased training, manning, and maintenance costs.[34] Many vital segments of the domestic budget have been constrained, including law enforcement and anti-drug efforts; infrastructure construction and maintenance; air traffic safety and airport construction; and efforts to fight AIDS and provide long-term care for the elderly--as well as programs for children.[35] President-elect Bush has promised action on some of these neglected issues, placing further upward pressure on the deficit. Meanwhile,

Congressional leaders warn that the crisis in the savings and loan industry may cost taxpayers over $20 billion,[36] diverting money that could fund an entire package of programs for at-risk children for one year, as described earlier.

One might argue that the nation has endured large deficits over the last five years and thus could sustain new spending on disadvantaged children if the investment saved money later. Unfortunately, we probably cannot afford to neglect the deficit while we wait for efforts for children to pay dividends. While the federal government has incurred large deficits, the household and business sectors have been borrowing heavily as well, forcing the nation to borrow unprecedented sums abroad.[37] If foreigners should refuse to increase their lending to the United States--a realistic threat because the U.S. becomes a higher credit risk as it borrows more--interest rates could rise rapidly and send the economy into a recession. If the federal government seems to ignore the deficit problem by raising spending without corresponding budget cuts or tax increases, it risks precipitating such a financial and economic crisis.

Other developments threaten to widen the gap between federal spending and revenues. If Congress adheres to The Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (commonly known as Gramm-Rudman-Hollings II) the budget will have to be balanced by fiscal year 1993, requiring $121 billion in savings from the current CBO baseline. Because the CBO baseline assumes zero real defense growth, additional savings in the military portion of the budget will probably be slim. Net interest payments cannot be reduced except through other cuts in the budget; entitlements are politically difficult to cut. If all of the savings were to be found in non-defense discretionary spending, such programs would have to be reduced by 50 percent. Even if entitlements other than Social Security and Medicare were targeted for budget cuts, the relevant programs would have to be slashed

by one-quarter in order to eliminate the budget deficit.[38] Thus, without finding other ways to reduce the deficit, policymakers might more usefully examine how to maintain spending for at-risk children instead of how to increase it.

Further clouding the budgetary horizon is the retirement of the baby boom generation. For the next two decades, the Social Security system will reap annual surpluses for the retirement of the baby boom generation after the year 2015. Those surpluses make the overall budget deficit seem deceptively smaller. By 1994, for example, the annual Social Security surplus will reach $113 billion, shrinking the measured budget deficit from $234 billion to $121 billion.[39] If policy makers sought to balance the budget without counting the Social Security surpluses dedicated to the baby boom's retirement, the budgetary constraints on programs for children at risk would be even tighter.

PART III. THE PROS AND CONS OF DIFFERENT FUNDING STRATEGIES

Keeping in mind the economic dangers involved in ignoring the federal budget deficit, those who favor a stronger national commitment to help at-risk children will want to consider the options for securing more of the nation's resources. The remainder of this paper considers four strategies:

1. Increase Federal Spending Through Conventional Budgeting Procedures.
2. Seek Special Federal Funding Mechanisms.
3. Rely on State, Local, and Private Financing.
4. Reallocate Federal Money Already Spent On Children.

A. Strategy 1: Increase Federal Spending Through Conventional Budgeting Procedures.

The primary reason to seek greater funding for disadvantaged children through the conventional budget process is that it places those policies under the greatest scrutiny. Ideally, policy makers should compare each program to every other program to determine which ones represent the best uses of public money. If this comprehensive budget review appears to justify new spending, the necessary revenues should be raised through existing taxes or new taxes according to their relative efficiency, simplicity, and equity.

The best way to highlight the benefits of conventional budgeting may be to describe the disorder and inefficiency that may arise if one strays from those procedures. If one program or group of programs is funded separately, spending on the segregated programs might be either too high or too low. This budgetary segregation of programs would tend to stymie change, so that any initial mistake in setting spending levels could become more pronounced over time.

Separate funding of certain programs may also distort the tax system by favoring taxes that lend themselves to earmarking, instead of those that minimize society's cost of raising money. A new tax might be favored over a more efficient expansion of an existing tax.

Moreover, while one or two small earmarked funding programs might be manageable, many such schemes could confuse the taxpayers and complicate tax administration. Revenues supporting particular programs might also grow or shrink unexpectedly, pinching vital causes or encouraging unnecessary growth. Furthermore, earmarking might encourage other interests to seek special trust funds.

Given these premises, one might choose to seek resources for disadvantaged children through the usual budget process, perhaps by cutting other spending or raising taxes. The following pages briefly illustrate some of the possible spending cuts or revenue increases. Through either method, the federal government could find more than $20 billion for at-risk children, although doing so might be difficult politically and burdensome economically. Of course, any new federal spending on disadvantaged children might be a part of a larger budget package with certain spending cuts and increases, as well as tax changes, so advocates for children need to think creatively about how to advance at-risk children's needs through the overall budget process.

Method 1: Cut other spending. Some observers have argued over the entire decade for reductions in defense spending, which grew by 8.5 percent annually in real terms during the first five years of the Reagan administration.[40] However, the CBO budget baseline already assumes zero real growth in defense spending. With many ongoing defense programs growing in real terms, we require numerous cuts just to reach that baseline. Defense analysts point out that the operating, support, and procurement costs of weapons systems ordered early in the Reagan administration will inflate the Pentagon's budget.[41]

Because the well-being of the elderly has improved significantly, another seemingly logical target for savings is the Social Security program. Nevertheless, the success of the program, as well as its popularity, is is likely to stop any attempts to cut Social Security spending. When Robert Strauss, co-chairman of the National Economic Commission

studying ways to reduce the deficit, suggested in September 1988 that Social Security and Medicare would have to be trimmed, his comments were quickly repudiated by other members of the Commission.[42]

Other sources of spending reduction seem even less promising. The "safety net" programs and the discretionary spending programs have both been curtailed earlier in the 1980s, providing a large share of the budget cuts at that time.[43] Possible further savings appear modest. Although Table 4 on the next page outlines potential cuts (in 1988 dollars) of over $23 billion annually--enough to cover the most expensive package of assistance to at-risk children discussed in this paper--three important cautionary notes are in order. First, some of the cuts might trim effective programs, costing us more money in the long run. Second, some of the reductions may be politically impossible: in fact, most of the savings shown in Table 4 would result from the unlikely decision to limit cost-of-living adjustments in popular entitlement programs. Finally, because the budget deficit is so high, most spending cuts might best be used to reduce that shortfall, instead of to start new initiatives.

TABLE 4

Potential Spending Reductions

Proposal	1st-Year Savings (billions of dollars)	5th-Year Savings
1. Slow growth in the Strategic Defense Initiative	.3	N.A.
2. Close selected military bases	0	.3
3. Cancel procurement of the F-15	.1	1.0
4. Adopt a fee schedule for physician services under Medicare updated annually by the Medical Economic Index	.1	.7
5. Restrict cost-of-living adjustments in non-means-tested programs for five years	3.0	17.6
6. End certain veterans' payments for those with low-rated disabilities	.5	1.3
7. Restrict agriculture price support program eligibility and reduce payment limitation	.1	.3
8. End the Export-Import Bank Direct Loan Program	.1	.3
Eliminate grants to states for wastewater treatment plant construction	.1	1.3
10. Reduce spending by contracting out more	0	.4
Totals:	4.3	23.2

SOURCE: Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options--A Report to the Senate and House Committees on the Budget: Part II (Washington, D.C.: U.S. Government Printing Office, 1988). The savings are in 1988 dollars, accounting for the implicit GNP price deflator increases predicted by the CBO in The Economic and Budget Outlook: Fiscal Years 1989-1993, Part I (Washington, D.C.: U.S. Government Printing Office, 1988), p. xxx.

Method 2: Increase taxes. Individual and corporate taxes, the biggest sources of federal revenue, were just overhauled in the long negotiations leading to the Tax Reform Act of 1986. This landmark compromise may be difficult to alter. Increasing individual income tax rates would raise the objection that the tax reform bargain was being violated, even though the new, broader tax base could yield large revenues from small rate increases. If the government raised the present marginal tax rates of 15 percent and 28 percent to 16 percent and 30 percent, respectively, the CBO projects added revenues of $18 billion in the first year, climbing to over $28 billion (in 1988 dollars) in the fifth year after the increase.[44]

It might also be possible to broaden the tax base further, but only by adding the politically sensitive items left out of the 1986 reform, such as fringe benefits, tax-exempt bonds, the deduction for state and local taxes, and the homeowner deductions. The corporate income tax was significantly raised in 1986, so it would be difficult to increase that levy further. Better political prospects, though offering more limited revenues, include the excise (or "sin") taxes, as well as the extremely leaky estate tax. Table 5 on the next page summarizes how much revenue, in 1988 dollars, the government might gain through various measures to raise revenue. Once again, the amounts are large, but enacting these tax increases and diverting some of the proceeds to at-risk children would be a challenging task.

TABLE 5
Potential Revenue Increases

Proposal	1st-Year Savings (billions of dollars)	5th-Year Savings
1. Eliminate private-purpose tax-exempt bonds	.1	1.1
2. Repeal the remaining tax advantages of extractive industries	1.1	2.2
3. Cap the allowable mortgage interest deduction $12,000 for single returns and at $20.000 for couples	.6	2.4
4. Extend the coverage of Social Security and hospital insurance payroll taxes to state and local workers not now covered	1.3	1.6
5. Lower the business deduction for entertainment and meals to 50 percent of cost	.9	4.0
6. Increase motor fuel taxes by 12 cents per gallon	10.5	9.2
7. Raise taxes on beer and wine to the rate on distilled spirits	3.7	3.5
8. Increase taxes on cigarettes to 32 cents per pack	2.7	2.4
9. Raise marginal personal tax rates to 16 percent and 30 percent	18.0	28.3
10. Increase corporate income tax rate to 35 percent	1.6	2.4
Totals:	40.5	57.1

SOURCE: Congressional Budget Office. Reducing the Deficit: Spending and Revenue Options--A Report to the Senate and House Committees on the Budget: Part II (Washington, D.C.: U.S. Government Printing Office, 1988). The savings are in 1988 dollars, accounting for the increase in the implicit GNP price deflator predicted by the CBO in The Economic and Budget Outlook: Fiscal Years 1989-1993--A Report to the Senate and House Committees on the Budget: Part I (Washington, D.C.: U.S. Government Printing Office, 1988), p. xxi.

B. Strategy 2: Seek Special Federal Funding Mechanisms.

Those who challenge the conventional wisdom that the budget should be considered in a unified fashion with all programs on the proverbial cutting board argue that the budget process is too ponderous for policy makers to respond to pressing needs. Accordingly, they advocate special financing mechanisms to deliver assistance to children (or other beneficiaries) more reliably and generously. For example, Jule Sugarman, who has proposed the creation of a "Children's Trust," asserts that without a special financing mechanism, "there is very little confidence that funding (for services to children) will be commensurate with need."[45] Thus, Sugarman's "Children's Trust" would gradually increase the payroll tax by three-tenths of one percent and earmark the revenues to provide additional funding (amounting to about $20 billion annually at the end of five years, enough to pay for any of the policy packages for disadvantaged children mentioned earlier) for children's programs.

In effect, those who support such "creative" funding methods for children are seeking the political means of harnessing popular support for greater assistance to children. Bob Ball, former director of the Social Security Administration, points out that a tax earmarked for children would create a national sense of purpose and support that would outweigh the public's general distaste for a tax increase.[46] One might also argue in favor of special funding methods for disadvantaged children by pointing out that in the current budgetary environment, where important new legislation like the catastrophic health care or the welfare reform laws provide for their own financing, such earmarked funding may become the de facto rule. For these reasons, advocates of programs for disadvantaged children might seek dedicated sources of revenue for their cause, possibly protected by placement in trust funds just as benefits to the elderly are safeguarded in the Social Security trust fund.

These special funding sources would optimally be flexible in size, and capable of raising between $5 and $20 billion annually (it would probably be inefficient to use special taxes to raise sums less than $5 billion), the cost range for the "moderate" to "liberal" initiatives described earlier in this paper. Ideally, a special tax vehicle should also have some thematic connection to the program it funds so that it can be appropriately targeted. These criteria suggest financing programs for disadvantaged children, in descending order of convenience, through increments to the existing excise taxes, estate tax, or payroll tax; a surcharge upon the existing income taxes; repeal of some specific income tax preferences; or introduction of a new, low-rate national sales tax (though one not too small to pass the test of cost efficiency). As an example, increases in "sin taxes," levied on the luxuries enjoyed by affluent adults, might seem fitting funding sources for programs for needy children.

But a problem with this approach, apparent in the current "pay-as-you-go" budgetary environment, is that many constituencies have sought special funding sources. The following are only some of the proposals that have circulated recently to link revenues with particular purposes:

1. Representative Claude Pepper's (D-FL) legislation (H.R. 3436) introduced in the 100th Congress to lift the cap on the Medicare portion of the Social Security tax and use that money to provide long-term health care for the elderly.

2. Representative Morris Udall's (D-AZ) legislation (H.R. 4127) introduced in the 100th Congress to dedicate $1 billion annually from offshore oil and gas leases, rents, and other fees to a trust fund to preserve open space and recreation areas. Udall plans to reintroduce this legislation in the 101st Congress.

3. Legislation included in the fiscal year 1988 budget bill creating an excise tax on vaccines to finance a trust fund compensating people injured by inoculations.

The surge of interest in securing revenue sources for particular purposes might prove both politically divisive and fiscally irresponsible, shrinking the nation's pool of

discretionary money. Ironically, children's programs might suffer in the competition for special funding if advocates for children were outflanked by other interest groups. Such a scenario is easy to imagine: for example, because payroll taxes have historically been used to fund programs for the elderly, it might be easier to dedicate an increase in the payroll tax to long-term care for the elderly instead of programs for at-risk children, especially because programs for the elderly follow a social insurance model critical in gaining political support for an earmarked tax.

In conclusion, these special funding approaches are adaptations to a severe budgetary constraint: they are, in essence, ways to tap new resources for important needs when the conventional budget process has turned bone dry. But, as noted in the previous section of this paper, special financing might insulate programs from the tough budgetary priorities that must be set. This practice would distort tax and spending decisions while adding to the clamor of interest groups for special protections.

C. Strategy 3: Rely on State, Local, and Private Financing.

The previous two sections have outlined some of the problems associated with federal financing of new policies to aid disadvantaged children. Using conventional federal financing methods, the government could increase or leave unchanged a budget deficit that threatens economic growth; special financing mechanisms, in turn, would distort our nation's choices about taxing and spending. Perhaps we should look elsewhere for the resources needed to finance programs for at-risk children.

State and local governments, often hailed as "laboratories of innovation" in social policy during the 1980s, represent one important source of expertise and funds. The commitment and imagination that led many states steadily to expand programs helping disadvantaged families and their children throughout this decade still seems strong. For example, 26 states now use the authority granted them in the 1981 Omnibus Budget and Reconciliation Act to restructure work and training programs for welfare recipients.[47] This experimentation, which produced such initiatives as Massachusetts' Employment and Training Choices, California's Greater Avenues to Independence, and Illinois' Project Chance, provided the impetus for the national welfare reform law enacted in October 1988. Meanwhile, state and local inventiveness is expanding into new areas. In 1987, 26 states appropriated funds for preschool education,[48] while many states and localities were also pioneering new programs to improve prenatal and infant health care; prevent child abuse and keep families together; and provide parent education.[49]

Given this record, one might well consider relying on the states and localities, which have accumulated combined surpluses between $40 and $70 billion annually each year since 1983,[50] to develop and finance new initiatives for disadvantaged children. In fact, new federal efforts in this area might be highly inefficient if they only substituted for dollars that states and localities were going to spend anyway. State and local governments may also be

able to design more effective programs if they understand local conditions better and are closer to children's needs.

Nevertheless, entrusting the states and the localities with responsibility for disadvantaged children encompasses some dangers. First, although state and local governments have been reaping budget surpluses, tapping this money would reduce savings in an economy where net domestic savings available for investment fell from 5.6 percent of gross national product in 1981 to 1.9 percent in 1987.[51] These funds also constitute insurance against a recession, as well as the means to support pension plans more fully. Furthermore, because fiscal capacity and spending priorities vary by region, state and local financing is far less likely to incorporate the redistributive principles that are an inherent part of policies to help disadvantaged children.

Welfare programs highlight how uneven state and local programs to help disadvantaged families and their children are likely to be. In January 1988, the AFDC program, jointly financed by the federal government and the states, provided maximum benefits for a family of three ranging from as low as 16 percent of the poverty threshold in Alabama to as high as 83 percent in Alaska.[52] State programs offering employment and training assistance to welfare recipients perpetuate this pattern, as the 26 states instituting these programs include a disproportionate share of the nation's large states, which tend to provide relatively generous AFDC benefits.[53] Similarly, the availability and amount of general assistance payments varies locally. To equalize assistance to the disadvantaged and increase the minimum levels of support, some advocate a strong federal role. The Food Stamp program, which is fully financed by the federal government, underscores the role the federal government can play in increasing equity. After food stamps are added to AFDC, the maximum benefits in the states available to single-parent families with two children shrinks from a range of 16 to 83 percent of the poverty line to a narrower scale of 46

percent to 104 percent of the poverty line--a significant improvement even though the disparity is still wide.[54] States have largely focused on programs improving the health and education of disadvantaged children,[55] suggesting that the federal government might best concentrate on building a strong safety net for children.

Private businesses and community organizations represent another source of assistance to disadvantaged children. As the federal government returned more responsibility in social policy during the 1980s to state and local governments and the private sector, many businesses and social service organizations began or enlarged programs to promote literacy, improve local education, expand health care, and discourage teen pregnancy.[56] Among the best-known of these efforts are the Beethoven Project, a public-private partnership in Chicago providing prenatal care, home visiting, and developmental education to all children born in a poor area; the Boston Compact, a collaboration among business, education, and labor leaders to increase school graduation and attendance rates as well as provide jobs for youth; and Eugene Lang's "I Have A Dream" program, which promised free college tuition and a variety of social services to encourage a class of sixth graders to persist in school.

While the private sector clearly can contribute to a national effort to help disadvantaged children, the main drawback to relying on businesses and non-profit organizations is that they are unlikely to provide a stable, sufficient base of resources and expertise. Because businesses are concerned about international competition and the quality of the labor force, they are likely to focus on the education and training of disadvantaged children but not on income support. Private organizations in different sections of the country have different capacities and inclinations to assist at-risk children. Businesses are ultimately accountable to their stockholders and not to the public, and must focus on profits. Thus, the private sector's contributions to disadvantaged children may fall way short of need: programs inspired by Lang's "I Have a Dream" initiative touch only about 5,000

students overall, for example.[57] Similarly, while there is considerable interest in expanding day care benefits for working parents, a recent survey by the American Society for Personnel Administration found that only 10 percent of companies assist their employees with child care.[58] Lynn Fender, Research Associate at the National Governors' Association, also notes that many private sector initiatives on behalf of children are not widely known, replicated, and expanded.[59]

The non-profit sector, which often provides services to the disadvantaged, exists in a symbiotic relationship with government and may not be able to increase its assistance to at-risk children by itself. Despite hopes that charitable giving would mitigate the effects of federal budget cuts upon non-profit organizations delivering human services, one study found that this philanthropy had compensated only for 20 percent of the reductions in federal spending in areas where non-profits are active between fiscal years 1982 and 1986.[60]

A final note of caution about the role of the private sector in increasing aid to disadvantaged children is that many groups are seeking to shift to businesses the costs of new economic and social legislation. Policies to raise the minimum wage, provide parental leave to workers, and extend health care to the uninsured may impose new costs upon businesses, perhaps threatening employment and economic growth.

D. Strategy 4: Reallocate Federal Money Already Spent on Children.

A fourth strategy for increasing assistance to disadvantaged children is to reallocate federal funds already spent on children. This goal could be accomplished in three ways. First, the government could transfer money that flows to disadvantaged children into those programs that are most effective in meeting their needs. Second, federal policies could better target disadvantaged children. Finally, policy makers could increase the efficiency of programs helping disadvantaged children, stretching dollars further.

Examining how the nation might best allocate funds for a given task is difficult: like engineers redesigning a machine, policy analysts can always produce numerous variations of the original programs. Therefore, this section uses two methods to simplify the calculation of how much federal money might be reallocated to disadvantaged children. First is a brief review of major federal programs that assist children in seven areas--income maintenance; nutrition; social services; education; job training; health; and tax expenditures (housing programs are not included here because they are not targeted at children)--illustrating ways to free up resources for disadvantaged children. The second method uses government spending on certain children's programs with appropriations less than $500 million annually as a proxy for federal spending on children that is inefficient or ineffective. The simplifying assumption behind this approach is that such small programs are more likely than other federal initiatives for children to have large administrative costs and less impact on children's problems.

Because some of these illustrative ways to reallocate money among children's programs would involve painful tradeoffs or create strong political opposition, the aggregate savings identified below in each of the seven categories were reduced by 50 percent to provide a more realistic estimate of how much money the federal government could

reallocate for disadvantaged children.[61] As Table 6 below shows, it appears that the government could apply about $2.3 billion already spent on children to improve the lives of the least fortunate young people in America. These calculations, described below, are an exercise designed to suggest the amount and the general type of reallocations of federal money for disadvantaged children; they do not represent recommendations.

TABLE 6

Potential Reallocations of Federal Money Spent on Children
To Help The More Disadvantaged

Category	Potential Reallocation
Income Maintenance	$400 million
Nutrition	$200 million
Social Services	$250 million
Education	$500 million
Training and Employment	$300 million
Health	$300 million
Tax Expenditures	$350 million
Total:	$2.3 billion

1. Income Maintenance Programs. Potential Reallocation: $400 million.

Income maintenance programs helping families with children accounted for about 40 percent of federal spending on children in fiscal year 1987, according to estimates prepared by House Budget Committee staff.[62] However, these income support programs do not present many opportunities for policy makers to reallocate money to disadvantaged children.

AFDC, the most important cash transfer program for children, was trimmed by about $600 million annually in the Omnibus Budget Reconciliation Act (OBRA) of 1981,[63] as lawmakers reduced the earned income and work expenses allowed to welfare recipients. Although AFDC has been criticized for discouraging work,[64] the program ensures basic subsistence for many families with children. With the maximum AFDC benefit in January 1988 below half of the federal poverty standard,[65] further cuts in benefits or eligibility would impose severe hardship. The 1988 welfare reform law, designed to cut costs by offering AFDC recipients education and training to help them get jobs, may represent the most promising source of AFDC savings. Because many work programs for welfare recipients have been found cost-effective,[66] Congress might want to increase these education and training funds to reap savings over the long run. The new law also increases funds for the nation's $400 million child support enforcement program, found to be a cost-effective way of reducing government transfer payments.[67]

After AFDC, Social Security benefits to the children or grandchildren of retired, deceased, or disabled workers serve as the most important income support for children. Once again, reallocating these benefits might be unwise: children may well need Social Security after a parent retires, dies, or becomes disabled. Furthermore, rewriting the Social Security law might violate an implicit covenant between the government and the taxpayers, because many workers have supported Social Security because it promises to protect their spouses and their children.

The CBO has estimated potential savings from some changes in income maintenance programs serving families with children.[68] The extra resources would be modest, reflecting the difficulty of trimming these programs. For example, the government could count energy assistance as income in determining AFDC and Food Stamp benefits, reaping about $225 million in savings (in 1988 dollars, as are all of the cost figures discussed below) several years after this change was made, or Congress could eliminate benefits for the household head once the youngest child turns 16 (for a savings of about $120 million). These changes, however, could hurt families with high energy bills and reduce the resources available to children. CBO has also predicted savings over $500 million if Congress eliminated Social Security benefits for the children of retirees between the ages of 62 and 64, a policy which might encourage workers to remain in their jobs but could hurt families of workers who retired involuntarily.

2. Nutrition Programs. Potential Reallocation: $200 million.

Nutrition programs serving children resemble income maintenance programs: they account for a large share of federal expenditures on children--about 30 percent in fiscal year 1987, according to House Budget Committee staff--but are relatively lean. The major source of food assistance to families and children, the Food Stamp program, was cut back in the 1981 OBRA, as Congress placed tighter restrictions on gross and earned income permitted for food stamp recipients. As a result, the Food Stamp program now serves a smaller percentage of poor people than it did in 1981.[69] Further cuts in this program would curtail one of the most important sources of federal assistance to low-income two-parent families.

The second most important source of federal food assistance to children is the WIC program (funded at $1.8 billion in fiscal year 1988 and at $1.9 billion in fiscal year 1989).

cited as cost-effective in a number of studies.[70] While this program might well be slated for expansion, state efforts to seek competitive bidding and rebates from WIC suppliers could save $100 million or more annually so that more disadvantaged children could participate in this program.[71] Policy makers might also choose to retarget funds from the National School Lunch Program and the National School Breakfast programs, which provide subsidies to all children. If subsidies to children with family incomes above 185 percent of the poverty line were eliminated, the CBO predicts savings of about $900 million annually,[72] although there might also be undesired effects if schools withdrew from the program because too few children were eligible, or if low-income children participating were stigmatized.

Finally, the federal government operates several small nutrition programs whose goals might better be fulfilled through programs like Food Stamps or WIC. Additional savings by shifting money from these programs might total $90 million annually.

3. Social Services Programs. Potential Reallocation: $290 million.

Social services programs--a catchall term for a variety of supportive and protective services like day care, foster care, and child abuse prevention--absorb relatively few federal funds; the two major efforts in this area are the Social Services Block Grant program (costing $2.75 billion in fiscal year 1988) and the Head Start program (costing $1.2 billion in fiscal year 1988). Thus, policymakers will probably be unable to channel much money from these programs to help disadvantaged children. Head Start, a preschool education and health services program targeted toward at-risk children (90 percent of participants must be poor, while 10 percent must be handicapped), has been found effective in several studies[73] and has been slated for a $240 million expansion by President-elect Bush.

But policymakers may be able to find ways to increase the efficiency and better coordinate of the numerous social services programs it operates. The flexible Social Services Block Grants program allows states to fund programs that are also covered under categorical programs. By eliminating or curtailing some of these programs, the federal government could shift about $100 million into programs for disadvantaged children, or at least $290 million by a more conservative estimate. Another way for the government to use resources more effectively for disadvantaged children might be to expand child welfare and family reunification services to reduce foster care costs using methods pioneered by several states.[74]

4. Education Programs. Potential Reallocation: $500 million.

The two most important federal education programs for children, Compensatory Education and Education for the Handicapped, are among the most successful investments in children, according to the House Select Committee on Children, Youth, and Families.[75] Thus, any extra funds for disadvantaged children from federal education programs are likely to be scarce, for Compensatory Education ($4.3 billion in funding in fiscal year 1988, with an increase to nearly $4.6 billion in fiscal year 1989) and Education to the Handicapped ($1.9 billion in funding in fiscal year 1988, rising to about $2 billion in fiscal year 1989) account for about two-thirds of federal education spending on children, which in itself totals only about 15 percent of federal spending on children.[76]

One option, though, would be to transfer money out of programs not targeted to children with particular learning problems. For example, the CBO estimates that eliminating the Chapter 2 Block Grant and the Mathematics and Science Education programs while terminating the untargeted portion of the Vocational Education program could save almost $1 billion annually.[77] A more conservative estimate of possible reallocations would be $500 million.

5. Training and Employment Programs. Potential Reallocation: $300 million.

Federal funds for youth employment and training are relatively modest: the Job Corps and Summer Youth Employment programs each received slightly over $700 million in federal funds during fiscal year 1988 and will receive similar amounts in fiscal year 1989. Youth between the ages of 16 and 21 must also represent 40 percent of those receiving assistance under the $1.8 billion (in fiscal year 1988) Job Training Partnership Act block grants to states.

Job Corps has been found effective in several studies,[78] as the benefits from this residential program providing education, training, and social services include greater employment, less welfare dependency, and less crime. Although the effectiveness of JTPA and Summer Youth Employment services for youth is less clear, the government might use its training dollars for young people more effectively by providing more intensive assistance like that provided in Job Corps. The National Research Council, among others, has found that inexpensive services like job search assistance typically provided in JTPA have not had long-term effects on disadvantaged youths' employment.[79] Perhaps $600 million of federal training dollars, or $300 million by a more conservative estimate could be reallocated into more intensive programs like the Job Corps, or to similar services provided in a non-residential setting.

6. Health Programs. Potential Reallocation: $300 million.

Federal spending on health care for children is dominated by Medicaid. Although this health insurance program for the poor has grown rapidly, absorbing over $30 billion annually, only about 12 percent of the money, or about $4 billion is spent on children.[80] Cutbacks in Medicaid services for children, which include the prenatal, infant and preventive health care that has been found cost-effective in many studies,[81] would be unwise. Partly because Medicaid eligibility is closely linked to AFDC receipt, which has shrunk while the number of poor children has grown, coverage of poor children under Medicaid declined by 13.7 percent between 1981 and 1984. Since 1984, policy makers have incrementally expanded Medicaid, making more pregnant women and young children up to the age of 7 eligible for coverage in the recognition that this investment in preventive care will save money in the long run. These judicious expansions of Medicaid may represent the best way

to control the costs of providing this coverage to children and free up money for other purposes.

Public officials may be able better to use money already spent on other children's health programs by funneling those resources directly into prenatal and preventive care, or the childhood immunization program (which was expanded from $86 million in fiscal year 1988 to $127 million in fiscal year 1989) that has reduced the incidence of measles, mumps, and rubella.[82] A cautious estimate of the funds that could be reallocated would be $300 million; an upper-bound figure might be $600 million.

7. Tax Expenditures. Possible Reallocation: $350 million.

The personal tax exemption for children, which stands at $1,950 in 1988, is the largest tax expenditure benefiting families with children. Using some reasonable assumptions about the number of taxpayers claiming this exemption and the average tax rate, one can estimate the lost revenues to the government for this exemption as between $20 and $30 billion. Robert Lerman has proposed directing more of this assistance to poorer families with children, which often do not benefit from the exemption because they do not pay taxes. He would replace it with a refundable tax credit of $350 per year per child, a redistribution that he estimates would involve minimal or no cost.[83] Lerman suggests that his idea, which would resemble the children's allowances provided in many European countries, would promote equity.

Because such a vast redistribution of income would require a solid political consensus that is presently lacking, policy makers would probably focus on two smaller tax expenditures as potential sources of spare resources for disadvantaged children. The Earned Income Tax Credit, a refundable tax credit for low-income working families with children, was expanded in the Tax Reform Act of 1986. It would be both politically difficult and

probably unwise to curtail this program. which is widely hailed for reinforcing work as an alternative to welfare.[84]

However, policy makers might be able to dedicate more federal money to disadvantaged children by restructuring the dependent care tax credit, estimated to cost the federal treasury slightly over $4 billion during fiscal years 1988 and 1989.[85] Because the credit is not refundable, low-income families not paying taxes cannot benefit; furthermore, poor families that do pay taxes receive little help from the dependent care tax credit, probably because they rely more on informal care where cash payments are not made.[86] Roberta Barnes of the Urban Institute has estimated that the poorest third of all families claim only 3 percent of the money under the dependent care tax credit.[87] Although there is a cap on the credit, it could be better targeted on needy families by phasing out the credit at a high income level. The CBO estimates that $700 million annually could be saved by phasing out the credit for families with yearly incomes over $50,000; a more modest approach of phasing out the credit at $65.000 would save almost $400 million annually.[88]

APPENDIX: AN EXPLANATION OF THE COST ESTIMATE

The attempt to quantify the cost of public efforts to assist disadvantaged children in Part I, Section C set a rough upper bound of $20 billion annually, in 1988 dollars. The steps in this calculation, which is a proxy method of predicting costs, are explained below. This approach assumed that the most expensive--and intensive--policies the nation could undertake to help at-risk children would involve transfering resources to them (mainly through cash and in-kind assistance) and developing their skills and talents (largely through better education and health care).

The proxies in this cost estimate were five important "income maintenance" programs and five important "human capital" programs. The costs of expanding these programs (in ways that are described below) were predicted and then summed. These 10 programs are used only to illustrate fiscal needs; certainly, a broad and extensive national effort to increase the well-being and potential of disadvantaged children would involve some new and different programs or policies.

The cost estimates for the "human capital" programs generally try to gauge the expense needed to make these programs available to all eligible children--in other words, these calculations try to approximate the price of the most extensive efforts the nation could make under those programs. The estimates for the "safety net" programs generally try to predict the outlays needed to make these programs more generous or more comprehensive. In most instances, they were based on calculations made in a 1985 Congressional Budget Office publication, Reducing Poverty Among Children, and slightly modified to account for inflation and other changes.

A. Human Capital Programs

1. The Special Supplemental Food Program for Women, Infants, and Children (WIC): $1.5 billion.

The Children's Defense Fund has estimated that it would cost $2 billion to expand WIC to serve all eligible women and children. This calculation is reasonable, because the Department of Agriculture estimates that about 44 percent of eligibles receive WIC nutrition supplements.[89] By simple extrapolation, this program serving 45 percent of the eligible population on a budget close to $2 billion would require an extra infusion of about $2 billion to cover all who qualify. But Bob Greenstein, Director of the Center on Budget and Policy Priorities, points out two strong reasons for lowering this estimate. First, it would be impossible to secure 100 percent participation in the program. Second, states have been pioneering new policies of bulk buying in programs like WIC that are reaping large savings.[90] Over 25 states have implemented these reforms, according to Greenstein. Thus, $1.5 billion might be a better estimate of what it would cost to extend WIC to the entire eligible population (the true cost might be even lower).

2. Medicaid: $2 billion.

This cost estimate for the expansion of Medicaid represents the added expense of insuring all poor children without health coverage under the program. There are about 3.7

million poor children in the United States without health insurance.[91] Because the average cost of providing Medicaid to dependent children under age 21 costs slightly more than $500 annually,[92] the total cost of this expansion would come to roughly $2 billion.

3. Head Start: $2 billion.

This program providing preschool education to poor and handicapped children is commonly estimated to serve less than 20 percent of eligible kids between the ages of 3 and 5.[93] But it would be unrealistic to expect 100 percent participation, because most children do not attend preschool for three years. To attain 50 percent participation in the program might cost about $2 billion, if one extrapolates from present program costs of $1.2 billion to serve 18 percent of the eligible children.

4. Compensatory Education: $2.5 billion.

The federal government spends over $4 billion ($4.3 billion in fiscal year 1988) on compensatory education, serving slightly over 50 percent of eligible children.[94] But this estimate of what it would cost the nation to provide compensatory education to all eligible children is lower than $4 billion in new funds because much of the administrative structure and personnel to offer this instruction is already available. The Children's Defense Fund estimates that it might cost $2.5 billion to make compensatory education available to all children who qualify.[95]

5. Job Corps: $500 million.

Job Corps is a small, intensive, residential program serving over 600,000 youth a year at a cost slightly over $700 million. Because the program requires young people to attend a course of instruction at specialized facilities, the program would take time to expand and would attract only a limited number of youth. Thus, the program might not be able to absorb more than $500 million in new funds over several years.

B. Safety Net Programs

1. Aid to Families with Dependent Children (AFDC): $3 billion.

This cost estimate for increasing cash transfers under the AFDC program is based upon a 1985 Congressional Budget Office estimate, adjusted for 10 percent inflation, of federal and state costs if AFDC benefits were set so that they equaled 65 percent of the poverty level together with food stamps.[96]

2. Food Stamps: $900 million.

This cost estimate reflects the added expense to the nation if Food Stamp benefits were increased to the level of 110 percent of the cost of the Thrifty Food Plan. Once again, this figure is based on a CBO calculation adjusted for inflation as well as for the reductions in AFDC benefits when Food Stamp support is increased.[97]

3. The Earned Income Tax Credit: $2 billion.

This $2 billion expenditure would increase the Earned Income Tax Credit and adjust it for family size, concepts incorporated in legislation (S. 2658, H.R. 4119) sponsored by Senator Rudy Boschwitz and Representative Thomas Petri in the 100th Congress. The Congressional Budget Office estimated that these bills would cost about $2 billion annually.[98] The cost of the program is not expected to increase over time because it would encourage work and increase tax revenues.

4. Housing Assistance: $3.9 billion.

This $3.9 billion figure is the inflation-adjusted equivalent of a 1985 CBO estimate of what it would cost to make housing assistance an entitlement for all poor families with children. The CBO calculation assumes that 50 percent of all such households would avail themselves of this assistance.[99]

5. School Lunch and School Breakfast Programs: $600 million.

The $600 million cost estimate is the inflation-adjusted equivalent of a 1985 CBO calculation of how much the federal government would have to spend if it required all public elementary schools to participate in the National School Lunch and School Breakfast programs.[100]

FOOTNOTES

1. U.S. Bureau of the Census, Statistical Abstract of the United States: 1988 (108th edition) Washington, D.C., 1987.

2. Stephanie G. Gould and John L. Palmer, "Outcomes, Interpretations, and Policy Implications" in The Vulnerable, John L. Palmer, Timothy Smeeding, and Barbara Boyle Torrey, eds. (Washington, D.C.: Urban Institute Press, 1988), p. 415.

3. Estimates prepared by Jim Bates of the House Budget Committee staff and presented at a conference at the Urban Institute, "Meeting of Experts on Financing Children's Programs," September 30, 1988.

4. The fiscal year 1988 figure is cited in "Fiscal '88 Budget Gap Totaled $155.1 Billion, Bigger Than Fiscal '87," Wall Street Journal, October 31, 1988, p. A8. The fiscal year 1989 estimate is from a Congressional Budget Office estimate in The Economic and Budget Outlook: An Update (Washington, D.C.: U.S. Government Printing Office, August 1988), p. xi.

5. "Congress Clears Overhaul of Welfare System," Congressional Quarterly, (Vol. 46, No. 40), October 1, 1988, p. 2700, and "New Welfare Approach to Be Tested Nationwide," Washington Post, October 14, 1988, p. A3.

6. See for example Children's Defense Fund, A Children's Defense Budget, FY 1989: An Analysis of Our Nation's Investment in Children (Washington, D.C.: Children's Defense Fund, 1988); American Enterprise Institute, The New Consensus on Family and Welfare (Washington, D.C.: American Enterprise Institute, 1987); American Public Welfare Association, Investing in Poor Families and Their Children: A Matter of Commitment (report published by the American Public Welfare Association and the National Council of State Human Service Administrators, 1987); and Committee for Economic Development, Children in Need: Investment Strategies for the Educationally Disadvantaged (New York: Committee for Economic Development, 1987).

7. See for example U.S. House of Representatives, Select Committee on Children, Youth, and Families, "U.S. Children and Their Families: Current Conditions and Recent Trends, 1987" (Washington, D.C.: U.S. Government Printing Office, 1987), p. 37.

8. Irwin Garfinkel and Sara S. McLanahan, Single Mothers and Their Children: A New American Dilemma (Washington, D.C.: Urban Institute Press, 1986), pp. 1-2.

9. U.S. Bureau of the Census, Statistical Abstract of the United States: 1988, Table No. 717.

10. Select Committee on Children, Youth, and Families, "U.S. Children and Their Families," p. 14.

11. Calculations made from Erol Ricketts and Ronald Mincy, "Growth of the Underclass: 1970-1980" (Urban Institute discussion paper, February 1988), Tables 1 and 6; and U.S. Bureau of the Census, Low-Income Areas in Large Cities (Washington, D.C.:

U.S. Government Printing Office, 1973), Table 1, p. 10; and U.S. Bureau of the Census, Poverty Areas in Large Cities (Washington, D.C.: U.S. Government Printing Office, 1985), Table 1, p. 45.

12. See for example Committee for Economic Development, p. 3.

13. See for example Select Committee on Children, Youth, and Families, "Children and Their Families," p. 3.

14. For a good summary, see Children's Defense Fund, p. xxxix.

15. See "Bush Details Child-Aid Plan." Washington Post, October 6, 1988, p. A27.

16. See U.S. House of Representatives, Select Committee on Children, Youth, and Families, "Opportunities for Success: Cost Effective Programs for Children, Update, 1988" (Washington, D.C.: U.S. Government Printing Office, 1988).

17. See for example National Governors' Association, The First Sixty Months (report published by the National Governors' Association, 1987).

18. E.T. Kennedy, et al. "Cost/Benefit and Cost/Effectiveness of WIC" (unpublished paper outlined at hearing on "Prevention Strategies for Healthy Babies and Healthy Children," Select Committee on Children, Youth, and Families, U.S. House of Representatives, June 1983).

19. See J. Berreuter-Clement et al., Changed Lives: The Effects of the Perry Preschool Program on Youths through Age 19, (monograph Number 8 of the High/Scope Educational Research Foundation, Ypsilanti, Michigan, 1984).

20. See for example David Hamburg, "Reducing the Casualties of Early Life: A Preventive Orientation" (unpublished paper issued by the Carnegie Corporation of New York), p. 5.

21. Congressional Budget Office, Educational Achievement: Explanations and Implications of Recent Trends (Washington, D.C.: U.S. Government Printing Office, 1987).

22. Kristin Moore and Martha Burt, Private Crisis, Public Cost: Policy Perspectives on Teenage Childbearing (Washington, D.C.: Urban Institute Press, 1982).

23. U.S. House of Representatives, Committee on Government Operations, Job Corps Program: Its Benefits Outweigh Its Costs (Washington, D.C.: U.S. Government Printing Office, July 1985).

24. Select Committee on Children, Youth, and Families, "Opportunities for Success," pp. 6-7.

25. Children's Defense Fund, Appendix A, p. 266.

26. U.S. House of Representatives, Committee on Ways and Means, Background Material

and Data on Programs Within the Jurisdiction of the Committee on Ways and Means (Washington, D.C.: U.S. Government Printing Office, 1988), p. 417.

27. For a good summary of this viewpoint, see Lawrence Mead, Beyond Entitlement: The Social Obligations of Citizenship (New York: Free Press, 1986), Chapter 4.

28. For a good summary of this viewpoint, see The Domestic Policy Council Low Income Opportunity Working Group, Up From Dependency: A New National Public Assistance Strategy (Washington, D.C.: U.S. Government Printing Office, 1986), Section I.

29. During the 1988 campaign, Dukakis committed himself to at least $6 billion in aid to disadvantaged children and their families, while Bush expressed support for similar proposals that would have cost about $4 billion. Dukakis endorsed $3 billion in new spending for affordable housing, backed "in concept" a child care bill that would have cost $3 billion annually once state matching costs are added, and supported parental leave and prenatal care legislation that might have cost about $300 million.

    Bush, in turn, made his plan for a $2.2 billion "Children's Tax Credit" and Head Start expansion one of the centerpieces of his campaign. He also advocated $650 to $700 million for better child support enforcement, adoption assistance, expanded Medicaid coverage, and more generous child nutrition programs; $500 million in awards to poor school districts that show improvement; $200 million for a Youth Engaged in Service (YES) program designed to help inner-city youth; and $300 million in increased funding for the McKinney Act helping homeless adults and children. Both candidates' platforms for disadvantaged children would probably have cost even more than $4 to $6 billion, as each had pledged to increase health care coverage of children--Dukakis by mandating that businesses insure their employees and Bush by allowing low-income families not eligible for Medicaid to buy into the program at a reduced cost.

30. For a good discussion of the damaging effects of deficits see Edward M. Gramlich, "How Bad Are the Large Deficits?" in Federal Budget Policy in the 1980s, Gregory Mills and John Palmer, eds. (Washington, D.C.: Urban Institute Press, 1984).

31. Economic Report of the President, 1988, (Washington, D.C.: U.S. Government Printing Office, 1988), Table B-77, pp. 338-339.

32. Calculation made from Congressional Budget Office, Economic and Budget Outlook, p. 53.

33. See for example "Prospects: Interest Rates Climb," New York Times, November 20, 1988, Section 3, p. 1.

34. For some descriptions of the difficulties in curtailing defense programs begun several years ago, see "Rivals Duck Big Defense Issue," Washington Post, October 18, 1988, p. A1, or "Pentagon is Bracing for Two 'Waves': Rising Costs Threaten Weapons, Readiness," Washington Post, November 14, 1988, p. A1.

35. For a more extensive discussion of spending priorities, see Joseph J. Minarik and Rudolph G. Penner, "Fiscal Choices" in Challenge to Leadership: Economic and Social Issues for the Next Decade, Isabel V. Sawhill, ed. (Washington, D.C.: Urban Institute Press, 1988).

36. See "Proxmire Says S&Ls Need Taxpayer Aid," Washington Post, September 22, 1988, p. E1 and "Dole Warns of Growing S&L Crisis," Washington Post, October 7, 1988, p. D1.

37. Economic Report of the President, Table B-72, pp. 332-333.

38. These calculations were made using information from Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1989-1993 (Washington, D.C.: U.S. Government Printing Office, 1988), Tables E1-E3.

39. Congressional Budget Office, Economic and Budget Outlook, p. 62.

40. See "Rivals Duck Big Defense Issue," Washington Post, October 18, 1988, p. A1.

41. "Pentagon Is Bracing for Two Waves," Washington Post, November 14, 1988, p. A1.

42. "Moynihan Disputes Prediction by Strauss, Washington Post, September 22, 1988, p. E1.

43. See for example R. Kent Weaver, "Controlling Entitlements" in The New Direction in American Politics, John E. Chubb and Paul E. Peterson, eds. (Washington, D.C.: Brookings Institution, 1985), pp. 307-341.

44. Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options--A Report to the Senate and House Committees on the Budget: Part II (Washington, D.C.: U.S. Government Printing Office, 1988), p. 285.

45. Jule Sugarman, "Financing Children's Services: A Proposal to Create The Children's Trust" (unpublished paper prepared June 1988), p. 2.

46. Comments made at an Urban Institute conference, "Meeting of Experts on Financing Children's Programs," held September 30, 1988.

47. Congressional Budget Office, Work-Related Programs for Welfare Recipients (Washington, D.C.: U.S. Government Printing Office, 1987), p. 25.

48. See "State and Federal Programs for Disadvantaged Preschoolers: New Findings, Troubling Questions" (George Washington University Issue Brief No. 497), p. 3.

49. For a summary of some interesting state and local initiatives, see National Governors' Association and Center for Policy Research, Focus on the First Sixty Months; The President's Domestic Policy Council Low-Income Opportunity Working Group, Up From Dependency; and American Public Welfare Association, "Successful Projects Initiative: 1987-88 Awards Program" (paper prepared by American Public Welfare Association, 1988).

50. Economic Report of the President, February 1988, Table B-79, p. 341.

51. Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1989-1993, p. 5.

52. Committee on Ways and Means, p. 408.

53. See Congressional Budget Office, Work-Related Programs for Welfare Recipients, p. 25 and Committee on Ways and Means, pp. 395-398, 408-410.

54. Committee on Ways and Means, pp. 408-410.

55. See for example National Governors' Association, The First Sixty Months, pp. 1-3.

56. For a good summary of some of these initiatives, see Committee for Economic Development, Children in Need.

57. "Update on a Dream," editorial in Washington Post, August 3, 1988, p. A16.

58. Survey cited in "The Child-Care Benefit Issue Grows Up," Washington Post, July 24, 1988, p. H5.

59. Comments made at an Urban Institute conference, "Meeting of Experts on Financing Children's Programs," held on September 30, 1988.

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66. See for example Judith Gueron, Work Initiatives for Welfare Recipients (New York: Manpower Demonstration Research Corporation, 1986), p. 19.

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